



DEPARTMENT OF MATHEMATICAL SCIENCES

Stochastic Analysis Common Seminar Series

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A Theory of Peer-to-Peer Equity Financing: Preference-Free and Menuless Screening Contracts

Abstract: A popular form of fundraising is peer-to-peer (P2P) financing, in which an entrepreneur can raise capital privately (e.g. hedge fund capital financing) or publicly (e.g. via initial coin offerings) from funders without traditional financial intermediaries. To overcome the information asymmetry between the entrepreneur and the funders of the project, we propose an incentive contract for P2P financing, by showing that it can attract some entrepreneurs who are attractive from the funders' perspective and deter all entrepreneurs who are unappealing to the funders. The contract, which is both preference-free and without a menu, has two crucial components: (i) a first-loss deposit to be used to offset some of the funders' losses and (ii) a liquidation boundary. Two case studies are given, one for private fund raising in hedge funds and one for public fund raising via initial coin offerings.

Bio: Steven Kou is a Questrom Professor in Management and Professor of Finance at Boston University. Previously, he taught at National University of Singapore (from 2013 to 2018), Columbia University (from 1998 to 2014), University of Michigan (1996-1998), and Rutgers University (1995-1996). He teaches courses on FinTech and quantitative finance. Currently he is a co-area-editor for Operations Research and a co-editor for Digital Finance, and has served on editorial boards of many journals, such as Management Science, Mathematics of Operations Research, and Mathematical Finance. He is a fellow of the Institute of Mathematical Statistics and won the Erlang Prize from INFORMS in 2002. Some of his research results have been incorporated into standard MBA textbooks and have implemented in commercial software packages and terminals, e.g. in Bloomberg Terminals.

Tuesday, March 12, 2019
4:00-5:00pm
Stratton Hall, 203